

MUA/RASA/EXAM/QP/2015

The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 311 : MANAGEMENT OF FINANCIAL INSTITUTIONS

DATE: 6TH AUGUST 2015

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the statement below carefully and answer the questions that follow:

ABC Company and XYZ Company enter into one-year interest rate swap with a nominal value of Ksh1 million. ABC offers XYZ a fixed annual rate of 5% in exchange for a rate of LIBOR plus 1%, since both parties believe that LIBOR will be roughly 4%. If the LIBOR rate is trading at 4.75%:

Required:

- a) Define an Interest Rate Swap (2 marks)
- b) Determine how much ABC company would pay XYZ at the end of the year (5 marks)
- c) Determine how much XYZ would pay ABC company at the end of the year (5 marks)
- d) Calculate the value of the swap between ABC Company and XYZ (5 marks)
- e) Establish which company suffered a loss and how much (3 marks)
- f) What benefit did the two companies get by entering into the swap arrangement (5 marks)

QUESTION TWO

- a. Define the term financial market (1 mark)
- b. Evaluate TWO functions of the financial markets in the economy (4 marks)
- c. Giving examples, identify FIVE types of financial institutions in Kenya (10 Marks)

QUESTION THREE

Identify and briefly discuss FIVE key regulatory institutions in the financial system in Kenya (their role and mandate). (15 Marks)

QUESTION FOUR

- a) Explain the meaning and nature of the following risks in the financial sector
 - i. Interest Rate risks
 - ii. Market Risks
 - iii. Credit Risks
 - iv. Equity Risks
 - v. Foreign Exchange Risks (10 Marks)
- b) Identify FIVE potential sources of funds for financial institutions (5 marks)

QUESTION FIVE

- a) Define the term liquidity (2 marks)

- b) Highlight FOUR financial instruments which can be employed in managing market risk (8 marks)
- c) Evaluate THREE disadvantages of using Electronic cheques (6 marks)

QUESTION SIX

- a) Define the term options in financial markets (1 mark)
- b) Identify six challenges faced by financial institutions operating in the emerging market economies (6 marks)
- c) Explain the following terms as used in the financial markets world
 - I. Futures
 - II. Swaps
 - III. Hedge
 - IV. Arbitrage (8 marks)